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FOSTERING SUSTAINED ECONOMIC DEVELOPMENT IN INDIA- THE ECONOMIC ANGLE

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Abstract: *Economic growth through increased productive activity draws on natural resources and affects the environment through the emission of industrial effluents to the environment. This results in environmental and ecological degradation affecting adversely the sustainability of the present rate of development and the quality of human life. The issue of sustainability of economic development is, therefore, generally looked at from the point of view of environmental quality and ecological balance. There is, however, a purely economic aspect of the issue and the strategy of economic development that is required for fostering a process of self-sustained economic growth that is also inclusive. It is from this economic angle that this paper discusses the issue of fostering a process of self-sustained economic growth and development in India.*

Keywords: *Fostering development; Economic Angle; Aggregate demand; Demographic dividend; Unemployment; Poverty line.*

INTRODUCTION

The issue of 'sustained economic development' or 'sustaining economic development', is generally looked at from the point of view of the environment and ecological balance that is necessary for human/animal life and existence. An initial rapid economic development through large-scale exploitation of irreplaceable natural resources, which are necessary for production of goods and services, results in the exhaustion of natural resources and the degradation of the environment through industrial effluence. This gives rise to the issue of whether the current rate of economic growth can be sustained in future.

The issue is generally dealt with from the point of view of the conflict between economic growth and the quality of the environment and conservation of natural resources for the future. The Economic Survey, 2013-14, report of the Government of

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India (2014) contains a chapter, Chapter 12, entitled "Sustainable Development and Climate Change." The chapter states in its opening sentence "Sustainable development is an imperative for achieving intergenerational equity and as a public good has a large global dimension." Measures aimed at ensuring sustainable development address issues like global warming, making provision for safe drinking water, fixing and meeting sanitation targets, controlling the incidence of contagious diseases, reduction of poverty, reducing the incidence of infant and maternal mortality, improving levels of literacy and education etc. (Government of India, 2014a). The emphasis is on improving the quality of human life at present while preserving natural resources and the quality of the environment for the future.

THE ECONOMIC ANGLE

There is, however, a purely economic angle of the issue of sustained development or sustaining development. This is the question of how the present rate of development of the economy can be sustained and raised so that every section the economy and society benefits from economic development.

THE CENTRAL ISSUE

The central issue is whether the changes and consequences of the initial development of the economy will impact favourably on the future rate of development, or whether the initial development and consequent changes will adversely affect the future rate of development of the economy and adversely affect the economic progress of the country. It is from this angle that this paper approaches the issue of sustaining development and the purely economic strategy that needs to be adopted for sustaining the present rate of development in future.

NATURE OF A MARKET ECONOMY

A market economy, unlike the old self-sufficient economy, is one in which production takes place for the market. The level of productive activity in such a market economy depends on the availability of market or demand for the volume of goods and services produced. If the required market does not exist, then the goods and services produced will remain unsold and the producers will be discouraged from undertaking the level of production that they have been undertaking. The reduction in the level of production will result in unemployment of labour, loss of income and purchasing power in the hands of the labourers and this will result in contraction in demand, and further reduction in the level of production and employment, causing economic depression. Hence, the level of productive activity already attained in an economy can be sustained only if adequate market exists, which implies increasing level of production and employment requires increasing demand and market in the economy.

This is the gist of Keynes' (1936) theory of employment according to which the level of production and employment in an economy depends on the level of aggregate demand; the presence of sufficient aggregate demand sustains the level of production already attained and insufficiency of aggregate demand causes unemployment and depression. Expanding market, either domestic or foreign, holds the key for sustained economic development in a market oriented economy.

This view of Keynes, prompted by the Great Depression of the 1930s, and the consequent general unemployment of a large scale, stood in marked contrast with the general belief that then prevailed among economists that a free market economy generally operates at a full employment equilibrium level of production.

Keynes' View

Keynes (1936a) disagreed with the classical belief and developed the view that a free enterprise capitalist market economy generally operates at an equilibrium level of production and employment that is less than full employment; a situation of underemployment equilibrium.

Such a situation of underemployment equilibrium is caused by an inadequacy of aggregate demand, since it is the level of aggregate demand that determines the level of employment in an economy. Sustaining economic growth and development in an economy at the full employment level, since any level less than full employment is not conducive to socio-economic welfare of the people, thus, requires sustaining aggregate demand.

The Indian Context

It is against this background that the Indian situation has to be analysed. The Indian economy has grown, since the launch of planned effort at economic development in 1951, both in volume and diversification of production. The rate of growth registered by the economy since the turn of the century is much higher than the rate of growth during the earlier years and has earned the economy the epithet 'high growth economy'.

Taking the rates of growth of gross national income and per capita net national income at constant prices as the indicators of the rate of growth of the economy, the data in Table 1 present the rate of growth of the economy since the turn of the century. The data show that during the period between 2000-01and 2011-12 the gross national income of the country at constant prices, real national income, grew by 120.30 per cent, representing an average annual rate of growth of 10.94 per cent. The orresponding average annual rate of growth of real net per capita income was 7.58 per cent during the period, thereby marking a high rate of growth of the Indian economy during the period.

Table 1
Gross National Income and Per-Capita Net National Income in India, 2000-01 to 2015-16

Year	*Gross National Income at Constant prices in Rs. Crore 2004-05 Series*	*Rate of Growth*	*Per-capita Net National income at Constant prices in Rs.2004-05 Series*	*Rate of Growth*
2000-01	2535911	..	22491	..
2001-02	2661819	4.99	23095	2.69
2002-03	2766298	3.93	23607	2.22
2003-04	2983497	7.85	25116	6.39
2004-05	3219835	7.92	26629	6.02
2005-06	3518348	9.27	28639	7.55
2006-07	3841974	9.20	30805	7.56
2007-08	4233768	10.20	33446	8.57
2008-09	4390966	3.71	33987	1.62
2009-10	4763090	8.48	36249	6.66
2010-11	5227739	9.76	39270	8.33
2011-12	5586683	6.89	41255	5.06
Percentage rate of growth over 2000-01		120.30		83.43
2011-12 Series (New Series)				
2011-12*	8659215	–	63460	–
2012-13*	9118709	5.31	65664	3.47
2013-14*	9717062	6.56	68867	4.88
2014-15@	10427701	7.31	72889	5.84
2015-16(AE)	11214077	7.54	77431	6.23
Percentage rate of growth over 2011-12		29.51		22.02

Source: Government of India, Economic Survey, 2015-16, Table 1.1, PP. A1-A2
Notes: * Second revised estimates
@ First revised estimates
AE: Advance estimates

The rate of growth of the economy, however, slowed down since 2011-12 and started picking up again since 2014-15 as can be seen from the data presented in the table. The real gross national income and the per capita real net national income grew only by an average annual rate of 7.38 per cent and 5.51 per cent, respectively, per annum during the period since 2011-12. Nevertheless, the rate is higher than the rates of growth recorded by the economy during the earlier decades.

SUSTAINING HIGH GROWTH

The relevant question is whether this high rate of growth of the economy can be sustained in the future, and what should be the strategy to be adopted for sustaining this high rate of growth of the economy? An answer to this question will be attempted in the following pages.

The Indian economy is faced with three problems, which are relevant to the context of the present paper, at present which pose serious challenges to any attempt aimed at sustained development. These are

(i) A large and growing population;

(ii) Large-scale unemployment, inequality and poverty; and

(iii) Inflation; each of which will now be briefly outlined.

A Large and Growing Population–the Challenge and the Dividend

The Indian population has been growing at a high rate since 1951, the year in which planned effort at economic development of the country was launched with the starting of the First Five Year Plan of the country on the 1st of April 1951. The population of the country was 361088 thousand in 1951, and stood at 1210855 thousand in 2011, recording a growth of 235.335 per cent over the 1951 figure, which works out to an average simple annual growth rate of 3.92 per cent, recording a growth of 3.35 times during the period of 60 years.(Government of India, 2014b).

Catering to this large and growing population is a challenging task. It also offers an advantage or dividend, termed as the 'demographic dividend' because of the large size of the active population that it contains. "The average age of the 125 billion strong Indian population will be 29 years in 2020, even younger than the 37 years of China and the US. The proportion of working-age population is likely to increase from approximately 58 per cent in 2001 to more than 64 per cent by 2021, adding about 63.5 million entrants between 2011 and 2016 with a large number of young persons in the 20-35 years age group. This is a great opportunity for India. Taking advantage of such an opportunity is contingent upon progress on the human development front".(Government of India, 2014c)

"As per Sample Registration System (SRS) (2013) data, there has been a gradual decline in the share of population in the age group 0-14 from 41.2 to 38.1 per cent during 1971 to 1981 and from 36.3 per cent to 28.4 per cent during 1991 to 2013. On the other hand, the proportion of economically active population (15-59 years) or, India's 'demographic dividend', has increased from 53.4 to 56.3 per cent during 1971 to 1981 and from 57.7 to 63.3 per cent during 1991 to 2013". (Government of India, 2015).

Such a large and growing population has an advantage from the point of view of economic development on two counts:

(i) It supplies the required man power for productive activity; and

(ii) It provides the economy with a large and growing domestic market for the goods produced within the country, so that the country need not depend excessively on foreign market for selling the goods produced in the country.

Necessity of Purchasing Power

A growing domestic market, however, requires purchasing power or income in the hands of the people to purchase the goods and services produced within the country. A large population by itself cannot provide the market unless it has the purchasing power, which requires income yielding employment for the country's labour force. This makes full employment level of production a prerequisite of sustained development.

UNEMPLOYMENT, INEQUALITY, POVERTY AND ECONOMIC EXCLUSION

The Indian economy is characterised by wide spread unemployment, inequality and poverty, in spite of the emphasis on 'economic development with social justice' adopted in the Second Five Year Plan of the country launched in 1956, and being followed in the country since then in varying nomenclatures and forms. The present day emphasis on inclusive development is only a modified version of the theme 'development with social justice'.

High rate of unemployment and underemployment acts as a handicap to sustained economic development of the country. The unemployment rate as per the current daily status (CDS) was 7.3 per cent in 1999-2000. It increased to 8.2 per cent in 2004-05 and declined to 6.6 per cent in 2009-10 and to 5.6 per cent in 2011-12. (Government of India, 2014d). However, the absolute number of unemployed persons increased from 9.8 million in 2009-10 to 10.8 million in 2011-12 as per the usual status. (Government of India, 2014e).

Table 2 presents data pertaining to the Labour Force Participation Rate (LFPR), Worker Population Ratio (WPR) and the Unemployment Rate (UR) in India as in July 2014, based on the data gathered by the Labour Bureau during January 14 –July 14, 2014. The data show that the Unemployment Rate in the country as a whole for persons aged 15 years and above was 4.9 per cent in 1914, based on the Usual Principal (UPS) method. The figure appears to be, apparently, modest. But it does not capture the large scale underemployment that prevails in the country, a problem that is evidently more widespread and rampant than the problem of open unemployment.

Table 2
The LFPR, WPR and UR for persons aged 15 years and above in India in 2014 (in percentages)

	Rural			*Urban*			*Total*		
Parameter	*Male*	*Female*	*Persons*	*Male*	*Female*	*Persons*	*Male*	*Female*	*Persons*
LFPR	74.7	29.1	54.7	73.8	18.5	47.2	74.4	25.8	52.5
WPR	71.6	27.2	52.1	70.9	16.2	44.6	71.4	23.8	44.9
UR	4.2	6.4	4.7	3.9	12.4	5.5	4.1	7.7	4.9

Source: Fourth Annual Employment-Unemployment Survey 2013-14, Labour Bureau. Table taken from Government of India-Economic survey, 2015-16, Vol. II, P.196; Table 9.5 in the page.

Unemployment and underemployment of a large scale, and the resulting low purchasing power in the hands of the people, slows down the expansion of the domestic market and retards the rate of growth of the economy.

INEQUALITY AND POVERTY

The persistence of inequality in the distribution of wealth and income in the country, caused by wide spread unemployment and underemployment, manifests itself in wide-spread poverty and acts as a threat to self sustaining economic growth of the country. The two indicators of inequality used by the Human Development Report of the World Bank are

(i) the Gini coefficient, and

(ii) the quintile income ratio.

The quintile income ratio, which is the ratio between the average income of the richest 20 per cent of the population and the average income of the poorest 20 per cent of the population, was 5.6 in 2010-11 (Govt. of India, 2013) and declined to 4.9 in 2011-12 (Government of India, 2014f). The decline in the value of the ratio in 2011-12, when compared with its value in the previous year, indicates a decrease in inequality in the country in 2012 when compared with the situation in 2011.

However, poverty caused by unemployment and underemployment, reinforced by inequality in the distribution of income, continues to persist in the country. The data presented in Table-III show the extent of poverty that still prevails in the country, despite over six decades of planned effort at economic development in the country. The data show the estimates of poverty made by the erstwhile Planning Commission, now Neeti Aayog. The data show that the people living below the poverty line formed 21.9 per cent in 2011-12, as against 37.2 per cent in 2004-05, in the country as a whole.

Table 3
Incidence and Extent of Poverty in India, 2004-05 and 2011-12

	Poverty Line		*Number of Poor Persons in Million*			*Poverty Ratio in Percentage*		
Year	*Rural*	*Urban*	*Rural*	*Urban*	*Total*	*Rural*	*Urban*	*Total*
2004-05	446.68	578.8	326.3	80.8	407.1	41.8	25.7	37.2
2011-12	816	1000	216.5	52.8	269.3	25.7	13.7	21.9

Source: Government of India-Economic Survey, 2014-15, P. 140, Table 9.3 in the page.

Note: The Planning Commission, which is the nodal agency for estimating the number of people living below the poverty line in the country, had estimated the Poverty Line for 2004-05 and 2011-12 based on the Tendulkar method of estimating poverty on the basis of monthly per capita consumption expenditure. Accordingly, the poverty lines for 2004-05 and 2011-12, estimated by the Commission, based on NSSO data on household consumption expenditure, were Rs.446.68 in rural areas and Rs.578.80 in urban areas in 2004-05, (Economic Survey,2011-12, P.305), and Rs. 816 in rural areas and Rs. 1000 in urban areas in 2011-12 (Economic Survey, 2013-14, P. 233).

The corresponding figures for rural areas were 25.7 per cent in 2011-12 and 41.8 per cent in 2004-05, and 13.7 per cent and 25.7 per cent, respectively, for urban areas, showing, thereby, that the prevalence of poverty is more pronounced in the rural areas than in the urban areas of the country.

As per the data gathered through the Socio Economic and Caste Census 2011 (SECC) conducted by the Ministry of Rural Development, Government of India in 2011, (The Hindu, 2015) of the total 24.39 crore households in the country, 17.91 crore households, forming 73.43 per cent of the total were rural households. This shows that nearly 73.43 per cent of the population of the country is rural population, showing, thereby, that the predominant segment of the domestic market of the country has to come from the rural areas of the country. An economically prosperous rural sector is essential for the expansion of the domestic market in the country.

However, the findings of the SECC, 2011 show the prevalence of widespread poverty in the rural areas of the country. The data show "that about 30 per cent of rural households are landless and derive a major part of their income from manual, casual labour." (The Hindu, 2015a). The data show that "the number of households with destitute or those living on alms is over 6.68 lakh; as many as 4.08 lakh households rely on rag picking" (The Hindu Business Line, 2015).

With the prevalence of such high and widespread poverty in the country, mere presence of a large population cannot provide the economy with a large and growing domestic market that it has the potential of providing. The domestic market can be enlarged only by measures at reducing poverty and promoting inclusive economic growth in the country.

INFLATION–A SERIOUS CHALLENGE

The high inflationary situation that has been prevailing in the country in recent years is a serious hindrance to inclusive economic growth, and hence to self-sustaining economic growth of the country. Inflation has the effect of increasing inequality in the distribution of income and wealth in the country by bringing about an artificial redistribution of income and wealth in the country in favour of the richer classes in society and away from the wage earners and poorer classes.

Available data show that the rate of inflation based on the wholesale price index was 8.9 per cent in 2011-12 and moderated to 6.0 per cent in 2013-14. The rate of inflation based on the consumer price index was 8.4 per cent in 2011-12 and increased to 10.4 per cent in 2012-13 and then declined to 9.7 per cent in 2013-14. (Government of India, 2015a). The rate of inflation based on the wholesale price index moderated further to 4.8 per cent during April-December 2014 and the rate based on the consumer price index moderated to 5 per cent in the third quarter of 2014-15. (Government of India, 2015b).

Though the rate of inflation is showing a declining trend recently, it is still high from the point of view of the distribution of income in favour of the poorer classes of people in society and from the point of view of inclusive development in the country. Inclusive economic development of the country widens the domestic market that sustains the process of economic development and makes it self-sustaining. This requires price stability. Hence, monetary and fiscal policies in the country should aim at price stability and near zero rate of inflation.

IMPLICATIONS TO POLICY

The policy implication that follows from the foregoing discussion is that unless emphasis is laid on equitable distribution of the gains of economic growth, as is implied in the theme of 'inclusive growth', inequality and poverty will persist in the country resulting in a shrinking of the domestic market. The result will be a slow-down of the process of economic growth of the country to a rate that is lower than what the demographic dividend and other resource endowments of the country warrant.

The first policy priority should be to stabilise the price level through effective market intervention by the Government. Price-stability will effectively reduce inequality and poverty and will free the resources, that are now spent by the Government on subsidies of different types and magnitude, for productive investment that will accelerate the process of self-sustained economic growth of the country. An effort is now being initiated in the direction of stabilising the price level through a policy of inflation targeting. However, the target rate of inflation should be zero or near zero rate of inflation, and not the 4 per cent rate inflation, within a range of 2 to 6 per cent (The Hindu, 2015b) that the Reserve Bank of India is now mandated to maintain through an agreement signed between the Government and the Reserve Bank of India in February, 2015.

CONCLUSION

The foregoing discussion points out that there is a purely economic aspect, other than the environmental and ecological aspects which are equally important, of the issue of sustaining economic development and making the process of economic development self-sustaining in the country. A large and growing population, large scale unemployment and poverty and a high rate of inflation are the serious economic challenges to the process of self-sustaining economic growth in the country. A large and growing population is an asset in the form of the young labour force it supplies. However, it will benefit the economy only when it is used productively. The present situation in India is a situation of large unemployment, particularly 'disguised unemployment', and underemployment that aggravates the widespread poverty that prevails in the country. The high rate of inflation that prevails in the country aggravates poverty by redistributing income in favour of the richer classes and this shrinks the size of the domestic market necessary for increasing and sustaining the level of productive activity in the country. These are purely economic issues that have to be addressed for generating a process of self-sustaining economic growth in the country.

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